



A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Procedural Review

Ray Unified School District No. 3

As of March 18, 2003



Debra K. Davenport
Auditor General

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**STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL**

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

WILLIAM THOMSON
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July 28, 2003

Governing Board
Ray Unified School District No. 3
P.O. Box 427
Kearny, AZ 85237-0427

Members of the Board:

We performed a procedural review of the internal controls of Ray Unified School District No. 3 as of March 18, 2003. The purpose of our procedural review is to determine whether a district is in substantial compliance with the *Uniform System of Financial Records* (USFR). Our review consisted primarily of inquiries, observations, and selective testing of accounting records and control procedures. The review was more limited in scope than would be necessary to express an opinion on the District's internal controls. Accordingly, we do not express an opinion on its internal controls or ensure that all deficiencies were disclosed.

As a result of our review, we noted significant deficiencies in internal controls that indicate the District has not complied with the USFR. District management should implement the recommendations we have described in this report within 90 days after the date of this letter to comply with the USFR. We have communicated specific details for all deficiencies to management for correction.

During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Laura Miller, Accounting Services Manager.

A member of my staff will call the Business Manager in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review to determine whether the District is in substantial compliance with the USFR.

Thank you for the assistance and cooperation that your administrators and staff provided during our procedural review. My staff and I will be pleased to discuss or clarify items in this report.

Sincerely,

Debra K. Davenport
Auditor General

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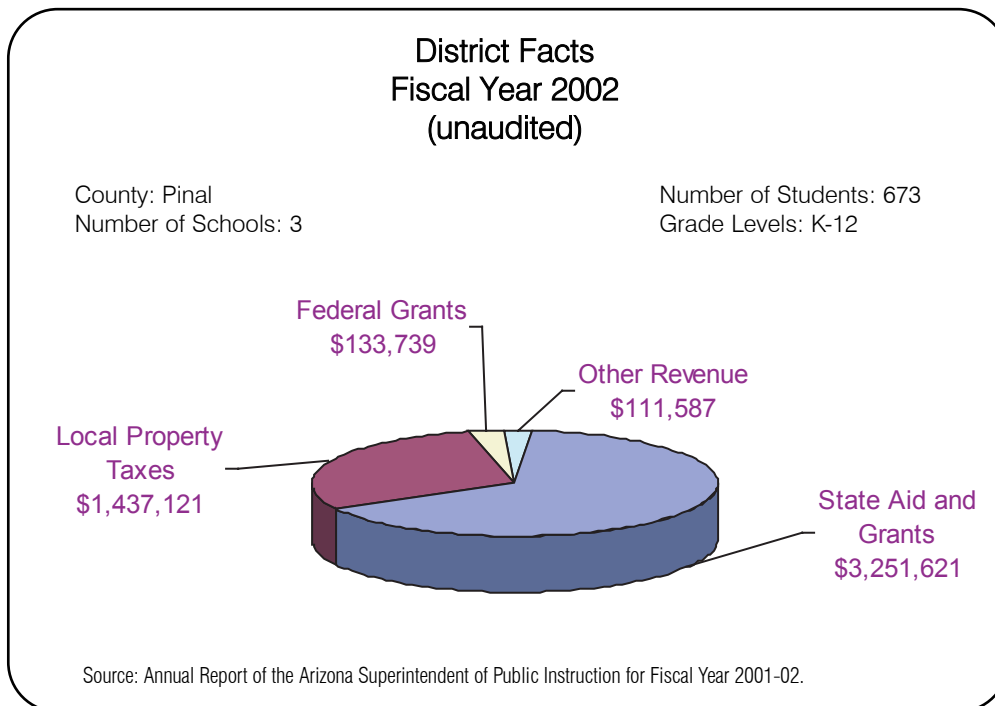
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INTRODUCTION

Ray Unified School District No. 3 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$4.9 million received in fiscal year 2001-02 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our procedural review, we determined that the District has not complied with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship, and to comply with the USFR. Our recommendations are described on the following pages.



As of March 2003, the District had not closed its fiscal year 2002 accounting records.

USFR pages VI-B-8 and 9 include reconciliation procedures.

The accounts payable clerk had access to the Superintendent's electronic signature.

The District should ensure the accuracy of its accounting records

The District's Governing Board depends on accurate information so it can fulfill its oversight responsibility. The District should also report accurate information to the public and agencies from which it receives funding. To achieve this objective, management should ensure that transaction amounts are recorded accurately, in the appropriate accounts, and in the proper fiscal year. However, the District did not accomplish this objective since, as of March 2003, it had not closed its fiscal year 2002 accounting records. As a result, the District had not reconciled its accounting records to those of the County School Superintendent (CSS) or the County Treasurer for the year-ended June 30, 2002.

Recommendations

The following procedures can help the District to record and report accurate financial information:

- Close each fiscal year's accounting records within a reasonable amount of time after the 60-day encumbrance period, such as by September 30.
- Reconcile the District's records of cash balances by fund monthly, and its records of revenues, expenditures, and cash balances by fund, program, function, and object code at fiscal year-end to those of the CSS.
- Ensure the CSS reconciles the District's records of cash balances to the County Treasurer's records at least monthly and that the District resolves all differences.

The District should strengthen controls over expenditures

The District spends tax dollars to purchase goods and services, so it is essential that the District follows procedures designed to help ensure that expenditure processing responsibilities are adequately separated among employees, its purchases serve an educational purpose, and it properly monitors those transactions. However, the District did not separate expenditure processing responsibilities, since one employee authorized expenditures, prepared vouchers, and recorded expenditure transactions. Also, purchase orders were not properly approved since the accounts payable clerk was able to issue purchase orders because the clerk had access to

the Superintendent's electronic signature. Furthermore, receiving reports were not properly prepared for goods received, and invoices were not always checked for mathematical accuracy before payment and canceled after payment.

In addition, the District may have violated Article IX, §7 of the Arizona Constitution, which prohibits gifts or loans of public monies by routinely purchasing bottled water for its employees even though there was access to drinking water on the District's premises. These purchases were in excess of \$2,000 annually.

Further, employees did not always complete all sections of their travel claim forms, and hotel reimbursements sometimes exceeded the limits established by the Department of Administration (DOA).

Recommendations

To strengthen controls over expenditures, the District should establish and follow the policies and procedures listed below:

- Separate expenditure processing responsibilities so that one employee authorizes purchases and another employee prepares the expenditure vouchers and records the transactions. If, because of the District's limited staff size, one employee must perform incompatible responsibilities, an employee who is not involved in the process should review and approve expenditures prior to payment.
- Prepare prenumbered purchase orders and obtain approval from an authorized employee prior to ordering goods or services. In addition, employees should not have access to other employees' electronic signatures.
- Have an employee not involved in purchasing prepare receiving reports, indicating the date and quantity received, condition of items, and signature of employee receiving the items. If the District uses a copy of the purchase order as the receiving report, eliminate the quantities ordered from that copy to help ensure that the receiving employee performs an independent count of items received.
- Inform vendors that they should send invoices directly to employees processing the payments. Have these employees check invoices for mathematical accuracy and cancel them after they are paid to prevent subsequent use.
- Obtain written governing board approval for expenditures that are not clearly for district operations. Include with the approval the Governing Board's determination that such expenditures are for an educational purpose and the costs do not greatly exceed the educational purpose served.

USFR pages VI-G-2 through 5 describe expenditure processing procedures.

- Have employees indicate all required information, including dates and times of travel, on travel claims. Travel reimbursements may not exceed the maximum amounts established by the Director of the DOA.

The District should maintain accurate capital assets and stewardship lists

The District has invested a significant amount of money in its capital assets, which consist of land, buildings, and equipment. Good stewardship requires the District to maintain accurate lists of these assets. However, the District's capital assets and stewardship lists did not include all appropriate assets, and the stewardship list lacked required information for some items and contained inaccurate information for others. Also, the District did not separately identify individual buildings and improvements on the capital assets list and lacked documentation to verify the value assigned to land on the list.

Recommendations

The following procedures can help the District ensure that its capital assets and stewardship lists are accurate and complete:

- Update the capital assets and stewardship lists annually for items purchased, disposed of, or relocated, ensuring that each asset's required information is accurately recorded.
- Retain cost documentation for all items added to or removed from the capital assets list. If the District cannot locate documentation to support the actual historical costs of its land, buildings, or other assets, it may use estimated historical costs obtained from a historical appraisal, governing board meeting minutes, bond issue documents, or vendor catalogs.
- Record individual buildings and improvements separately on the capital assets list to help ensure they are properly valued.

The District's capital assets and stewardship lists were not complete.

USFR pages VI-E-2 and 3 and USFR Memorandum No. 196 describe the information that should be recorded on the capital assets and stewardship lists.

Instructions for documenting capital asset cost information are included on USFR pages VI-E-3 through 5.

The District should strengthen controls over student activities and auxiliary operations monies

The District holds student activities monies, raised through the efforts of students, for safekeeping. Auxiliary operations monies are district monies raised in connection with bookstore and athletic activities. The Governing Board is responsible for establishing proper oversight over these monies to ensure that proper procedures are followed for collecting and spending these monies.

However, proper oversight was not established. The Governing Board did not appoint a student activities treasurer, and the District did not submit a monthly report of activity in the student clubs to the Governing Board. Additionally, for both student activities and auxiliary operations, the District did not adequately separate responsibilities among employees since one employee maintained the accounting records, had custody of blank checks, and signed checks. Further, student activities and auxiliary operations check requests and supporting documentation were not canceled to prevent duplicate payments, and checks were not always signed by two employees. For student activities disbursements, the District did not always retain receiving reports or documentation to support disbursements.

Also, the District did not ensure that proper cash collection procedures were followed. Cash collection reports were not always prepared to ensure that cash was properly accounted for at student activities events. Also, ticket numbers were not recorded on cash collection reports for auxiliary operations monies received from elementary school athletic events, and therefore, sales were not reconciled to cash collections.

Recommendations

The District should establish and follow procedures to strengthen controls over student activities and auxiliary operations monies that include the following:

- The Governing Board should appoint a student activities treasurer to provide oversight, maintain club records, and sign student activities checks.
- The student activities treasurer must submit a report of student activities cash receipts, disbursements, transfers, and cash balances to the Governing Board monthly.
- Employees should retain all documents supporting disbursements including invoices and receiving reports.
- Employees should stamp all check requests and invoices as paid.

A sample student activities cash collection report is on USFR page X-H-21.

- Two authorized check signers should sign all student activities and auxiliary operations checks and the signers should not have access to blank checks.
- The District should adopt written procedures for student activities cash collections to help ensure that receipts are accurately recorded. These procedures should require that student clubs use tickets, prenumbered cash receipt forms, a cash register, or counts of items before and after a sale; and prepare cash collection reports that reconcile sales to cash collections. If this is not practical, the District should document the amount of cash collected.
- For all athletic events, employees should record beginning and ending ticket numbers on the cash collection reports to document sales.

The District should have stronger controls over its bank accounts

The District did not properly replenish the M&O Fund revolving bank account.

The Maintenance and Operation (M&O) Fund revolving bank account is used to pay for minor expenses and should be maintained on an imprest basis. That means, the check register balance and invoices/receipts for checks issued from the account should equal the authorized amount at all times. To replenish the account, the District should submit a voucher to the CSS equal to the amount of checks paid from the account. However, the District did not follow these guidelines, as the revolving account balance plus the invoices/receipts for items paid from the account was less than the imprest amount of \$5,000. Additionally, the District deposited miscellaneous receipts into the account.

The District did not prepare bank reconciliations for all accounts.

Districts receive monthly bank statements that summarize the monthly activity and report the ending bank balance for each bank account. Bank balances generally do not agree with the District's records because checks may be outstanding, deposits may be in transit, and the District may not have recorded bank charges. Therefore, employees should prepare reconciliations to verify the accuracy of both balances. However, employees did not always properly prepare bank reconciliations. Furthermore, interest earned and bank charges on the District's bank accounts were recorded in the auxiliary operations bank account instead of in the individual bank accounts.

Recommendations

To properly control its bank accounts, the District should:

- Operate the M&O Fund revolving bank account on an imprest basis. The employee who reconciles the account each month should verify that the combined check register balance and invoices/receipts for checks issued from the account equals the authorized amount. The account should only be replenished with CSS-issued warrants.
- Deposit miscellaneous receipts in a miscellaneous receipts clearing bank account or directly with the County Treasurer.
- Prepare written monthly reconciliations for all bank accounts.
- Record interest earned, bank charges, and any other corrections in the appropriate bank accounts' check registers.

Bank reconciliation procedures are outlined on USFR page VI-C-6.

The District should comply with rules for reporting student attendance

The State of Arizona provides funding to school districts based on average daily membership and attendance. In turn, the State requires school districts to accurately document entry and withdrawal dates, attendance, and absences. However, the District did not always record the entry dates in student files or prepare and maintain Official Notice of Pupil Withdrawal forms. Furthermore, the District did not record partial-day absences properly for primary and high school students in its computer system.

Recommendations

The District should perform the following procedures to help ensure that it receives the correct amount of state funding by recording and reporting attendance in accordance with ADE's *Instructions for Required Reports*:

- Record entry dates in student files, and complete and retain Official Notice of Pupil Withdrawal forms for students who have left the District.
- Record first- through eighth-grade students as absent if they attend class less than half the day. Record a half-day absence if these students attend class more than half the day but less than three-quarters of the day.

ADE provides guidance for attendance reporting requirements in its *Instructions for Required Reports*.

- Record partial-day absences for high school students, in accordance with ADE's *Instructions for Required Reports*, based on the number of periods absent and number of enrolled subjects.

The District should strengthen controls over food service cash receipts

The District is responsible for safeguarding cash it receives directly. Because of the relatively high risk associated with cash transactions. The District should have effective internal controls to safeguard cash by promptly depositing it and accurately recording the resulting transactions. These procedures should require employees to maintain a sales record and reconcile food service cash and charge collections to sales. However, the District did not document the quantities of a la carte items sold so employees could prepare these reconciliations. Additionally, the District did not safeguard cash collected for charge sales, as the monies were not remitted daily to the food service supervisor.

Recommendations

The District should take a beginning and ending inventory of a la carte items and record them on the cash collection report to ensure that sales quantities can be reconciled to cash collections. Also, the employee receiving cash for charge sales should submit it daily to the food service supervisor to help ensure these collections are included on the daily cash reconciliation report.

The District did not reconcile total cash collections to sales.

The forms on USFR pages X-F-17 and 19 may be used to record daily cash collections and reconcile sales to cash collected.